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SUBJECT: TREASURY SECRETARY PAULSON DISCUSSES FINANCIAL SERVICES WITH CSRC CHAIRMAN SHANG

Classified By: Ambassador Clark T. Randt, Jr. for reasons 1.4 b/d.

Summary

1. (C) Summary. Treasury Secretary Paulson met with CSRC Chairman Shang Fulin in conjunction with the SED in Beijing on December 11. Shang briefed Paulson on recent progress in raising the quota for foreign investors in Chinese capital markets to USD 30 billion. He also emphasized plans to resume licensing of foreign securities joint ventures and expand the scope of foreign credit rating agencies' activities. Paulson stressed that as he works to keep U.S. markets open to Chinese investors, it is easier to do so if China opens its financial services sector by raising equity caps for foreign firms. End Summary.

CSRC to Raise QFII Investment Ceiling

2. (C) Shang informed Paulson that on December 9, CSRC raised the quota for foreign investors to invest in Chinese capital markets through the Qualified Foreign Institutional Investor (QFII) program. (Note: The ceiling will be raised to USD 30 billion from the current USD 10 billion.) Shang told Paulson that CSRC is currently drafting regulations that will resume licensing of foreign securities firms' joint ventures, meeting SED II commitments. He also explained that, in the past, NDRC held authority for approving corporate bond issuances, but this authority has shifted to CSRC. Shang explained that credit rating agencies - including foreign joint ventures - have already been involved in rating domestic bonds, and he supports a gradual increase in the scope of credit rating agencies' activities in China.

Still Too Early to Raise Equity Caps

3. (C) Paulson stressed that as he works to keep U.S. markets open to Chinese investors, it is easier to do so if China opens its financial services sector by raising equity caps for foreign firms. Shang assured Paulson that China is open to outside competition and noted, "big trees cannot grow in greenhouses." He stated that foreign securities companies have made significant progress in the Chinese market, and added that Goldman Sachs/Gaohua, UBS, and CICC are among the top firms in the domestic IPO market. Shang asserted, however, that "gradual opening of the financial services sector is in the best interest of the U.S. and China." Using a basketball analogy, Shang said that domestic financial services firms are like high school athletes, whereas American firms are NBA players. Though he agrees that it would be ideal to invite more NBA players to join the team,

detractors say the highly-skilled NBA players would relegate the high school students to the bench. Shang stressed that, similarly, China's financial services sector should be opened gradually in order to enable domestic firms to build capacity.

14. (C) Paulson replied that foreign financial services firms operating in China would hire Chinese staff, in turn developing NBA-level Chinese players, creating more jobs, and benefiting the entire country. The Chinese government would also set the rules and determine when there was a foul, he explained. Paulson told Shang he understood that it would not be easy for Shang to pursue raising foreign equity caps in light of internal political debates on this issue, but he requested nonetheless that CSRC commit to concrete steps to further open the financial services sector. Shang replied that CSRC could, for example, make a general announcement to gradually raise equity caps and expand securities joint ventures.

RANDT